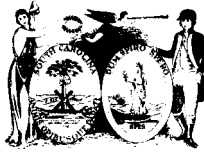


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

May 8, 2002

Mr. Mitch Clary, Director of Reimbursement
Pruitt Corporation
409 East Doyle Street
Toccoa, Georgia 30577

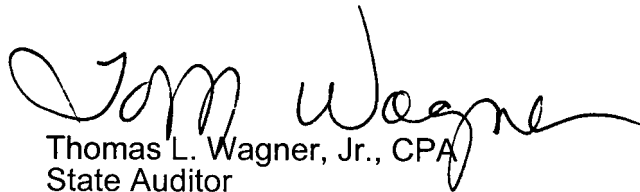
Re: AC# 3-SMR-J9 – Southern Medical of Ridgeway, Inc.
d/b/a Tanglewood Health Care Center

Dear Mr. Clary:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph Hayes

**SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER**

RIDGEWAY, SOUTH CAROLINA

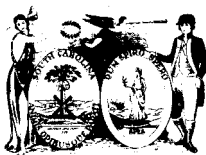
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-SMR-J9**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 17, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Southern Medical of Ridgeway, Inc. d/b/a Tanglewood Health Care Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

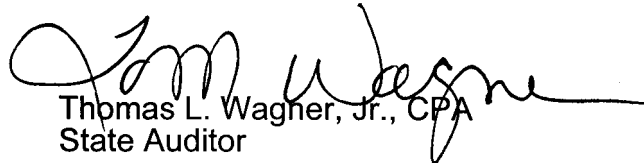
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Southern Medical of Ridgeway, Inc. d/b/a Tanglewood Health Care Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Southern Medical of Ridgeway, Inc. d/b/a Tanglewood Health Care Center dated as of November 1, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 17, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-SMR-J9

Interim reimbursement rate (1)	\$89.10
Adjusted reimbursement rate	<u>88.23</u>
Decrease in reimbursement rate	<u>\$<u>.87</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HALTH CARE CENTER
 Computation of Adjusted Reimbursement Rate
 For the Contract Period Beginning October 1, 2000
 AC# 3-SMR-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.87	\$54.01	
Dietary		8.85	10.12	
Laundry/Housekeeping/Maint.		<u>9.27</u>	<u>8.88</u>	
Subtotal	<u>\$5.11</u>	56.99	73.01	\$56.99
Administration & Med. Rec.	<u>\$2.04</u>	<u>8.51</u>	<u>10.55</u>	<u>8.51</u>
Subtotal		65.50	<u>\$83.56</u>	65.50
<u>Costs Not Subject to Standards:</u>				
Utilities		2.52		2.52
Special Services		.37		.37
Medical Supplies & Oxygen		4.44		4.44
Taxes and Insurance		1.80		1.80
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$74.63</u>		74.63
Inflation Factor (3.20%)				2.39
Cost of Capital				7.14
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.04
Cost Incentive				5.11
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.40)
Nurse Aide Staffing Add-On 10/1/2000				.94
Nurse Aide Staffing Add-On 10/1/1999				<u>1.38</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$88.23</u>

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1999
 AC# 3-SMR-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,108,216	\$ -	\$23,576 (3) 38,796 (4) 2,693 (4)	\$2,043,151
Dietary	494,670	-	13,142 (2) 11,788 (3) 4,494 (4)	465,246
Laundry	128,999	-	632 (2) 1,874 (4)	126,493
Housekeeping	192,573	-	3,042 (4)	189,531
Maintenance	172,564	-	1,389 (4)	171,175
Administration & Medical Records	449,670	-	101 (2) 2,008 (4) 253 (4)	447,308
Utilities	138,464	-	5,908 (5)	132,556
Special Services	20,318	-	666 (4)	19,652
Medical Supplies & Oxygen	241,597	-	8,328 (6)	233,269
Taxes & Insurance	94,398	-	-	94,398
Legal Fees	-	-	-	-

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-SMR-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Cost of Capital	297,939	670 (1) <u>76,620 (7)</u>	-	375,229
Subtotal	4,339,408	77,290	118,690	4,298,008
Ancillary	96,793	-	-	96,793
Non-Allowable	557,472	13,875 (2) 35,364 (3) 55,215 (4) <u>8,328 (6)</u>	670 (1) 76,620 (7)	592,964
Total Operating Expenses	<u>\$4,993,673</u>	<u>\$190,072</u>	<u>\$195,980</u>	<u>\$4,987,765</u>
Total Patient Days	<u>52,560</u>	<u>-</u>	<u>-</u>	<u>52,560</u>
TOTAL BEDS	<u>150</u>			

**SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER**

Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-SMR-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Cost of Capital	\$ 670	
	Accumulated Depreciation	25,253	
	Fixed Assets		\$21,734
	Nonallowable		670
	Other Equity		3,519
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	13,875	
	Dietary		13,142
	Laundry		632
	Administration		101
	To properly record expenses		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
3	Nonallowable	35,364	
	Nursing		23,576
	Dietary		11,788
	To disallow Home Office cost expensed twice		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Nonallowable	55,215	
	Nursing		38,796
	Restorative		2,693
	Dietary		4,494
	Laundry		1,874
	Housekeeping		3,042
	Maintenance		1,389
	Administration		2,008
	Medical Records		253
	Physical Therapy		666
	To adjust fringe benefits		
	HIM-15-1, Section 2302		
	State Plan, Attachment 4.19D		

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-SMR-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Vending Machine Revenue Utilities	5,908	5,908
	To properly offset income HIM-15-1, Section 2304		
6	Nonallowable Medical Supplies	8,328	8,328
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
7	Cost of Capital Nonallowable	76,620	76,620
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$221,233</u>	<u>\$221,233</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1999
 AC# 3-SMR-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>150</u>
Deemed Asset Value	5,424,750
Improvements Since 1981	1,319,983
Accumulated Depreciation at 9/30/99	<u>(2,759,986)</u>
Deemed Depreciated Value	3,984,747
Market Rate of Return	<u>.060</u>
Total Annual Return	239,085
Return Applicable to Non-Reimbursable Cost Centers	(368)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>1</u>
Allowable Annual Return	238,718
Depreciation Expense	141,943
Amortization Expense	-
Capital Related Income Offsets	(5,222)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(210)</u>
Allowable Cost of Capital Expense	375,229
Total Patient Days (Minimum 96% Occupancy)	<u>52,560</u>
Cost of Capital Per Diem	\$ <u><u>7.14</u></u>

SOUTHERN MEDICAL OF RIDGEWAY, INC.
D/B/A TANGLEWOOD HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-SMR-J9

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 6.24
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$10.23</u>
Reimbursable Cost of Capital Per Diem	\$ 7.14
Cost of Capital Per Diem	<u>7.14</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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